SECOND SET OF INFORMATION REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY
TO
BOSTON GAS COMPANY

D.T.E. 05-66

Respondent: Joseph F. Bodanza

Information Request DTE 2-3

Q. Please rerun Table 1 for the period November 2003 through October 2005, determining the values in Column D by allocating the annual amount ($5,157,280) for the period November 2003 through October 2004 year and $5,648,000 for the November 2004 through October 2005 year on a volumetric basis to each month. Provide all supporting workpapers and calculations, including the monthly volumes on which the bad debt was allocated to each month.

A. Please see the attached schedule. Column H represents the hypothetical monthly allocation of the Department's capped amount of $5,157,280 for 2003-04 and $5,647,899 for 2004-05, on a volumetric basis.

Please note that the Column D is the actual amount recovered through the CGA annual reconciliation process. As a result, this analysis highlights an issue that the Company identified in making its original proposal for exogenous cost recovery to the Department. Specifically, the Company recognized that the particular manner in which bad-debt recoveries were recorded and reconciled through the 2003-04 annual CGA period needed to be maintained in order to ensure accuracy in calculating the impact of the exogenous factor (i.e., the change in gas costs). Specifically, because gas-cost related bad-debt is a CGA item, and is accounted for over the 12-month split year for reconciliation purposes, the Company recognized that a mismatch would be created unless the exogenous cost calculation encompassed all 12-months of the 2003-04 annual CGA period. This is especially true given the mid-course accounting change that the Company was required to make to address the rising level of gas-cost related bad debt and the variation in monthly recorded amounts that resulted from that change (discussed in response to Information Request DTE 2-2).

To address this issue, the Company proposed two alternatives in its initial filing for exogenous-cost recovery, each of which would include November and December of 2003 in the calculation (see, D.T.E. 05-66, Initial Filing, at 5). Either alternative would have ensured that the 12 months composing the 2003-04 annual CGA period (and allowed through the annual reconciliation) were included. Because the Company was in an over-recovery position in relation to gas-cost related bad-debt in the months of November and

December 2003, the net effect of including these months was to reduce the amount of the exogenous cost to be recovered by the Company to the benefit of customers.

Although the Department has generally considered the exogenous-cost period to be a calendar-year period, the “exogenous” cost in this case is a gas-cost item that is recovered through the CGA on a split-year basis. Therefore, to accurately determine the Company’s “exogenous cost” it is necessary to avoid the mismatch between the months included in the Department’s annual 12-month period for gas-cost reconciliation (including bad-debt) and the 12 calendar months of the annual PBR term. An exogenous cost amount that reflects calendar year experience unadjusted for the cost and timing differences related to the annual gas-cost period will produce an erroneous exogenous-cost impact. Therefore, the Company’s preferred approach is to base the 2004 (and subsequent) exogenous-cost calculations on the actual bad-debt recoveries allowed through the annual reconciliation process for the period November (2003) through October (2004), which would provide consistency with the amounts allowed by the Department through the CGA over successive CGA periods.

The Company does not believe that an appropriate remedy to this inherent mismatch between calendar year and the annual CGA (split-year) period is to ignore the Company’s actual accounting records and to substitute a hypothetical set of monthly accounting entries across two separate CGA periods where the total amount of bad-debt recoveries differed. There is no basis for imposing such an approach because it neither reflects the results of the annual CGA reconciliation process, which relies on the Company’s actual accounting entries, nor does it reflect the Company’s actual bad-debt experience.